

Report of the auditor-general to Eastern Cape Provincial Legislature on Joe Gqabi District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Joe Gqabi District Municipality set out on page ...to..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, and the consolidated and separate statement of financial performance, consolidated and separate statement of changes in net assets and consolidated and separate cash flow statement and consolidated and separate statement of comparison of budget and actual for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Joe Gqabi District Municipality as at 30 June 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with the South African Standards of General Accounting Practise (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No 3 of 2016) (DoRA).

Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the Municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 39 to the consolidated financial statements, the corresponding figures for the previous balance sheet date have been restated as a result of an error in

the consolidated and separate financial statement of the district municipality, at and for the year ended 30 June 2017.

Material Losses

8. As disclosed in note 44 of the consolidated and separate annual financial statements, material losses to the amount of R49.7 million (2016: R68.6 million) were incurred on water losses.

Impairments – receivables from exchange transactions

9. As disclosed in note 5 to the consolidated and separate financial statements, doubtful debts written off against provision to the amount of R142.8 million (2016: R208.9 million) were incurred as a result of a write-off of irrecoverable receivables from exchange transaction.

Responsibilities of the Accounting Officer

10. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with GRAP and the requirements of the MFMA and DORA for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
11. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the Joe Gqabi District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the Municipality or cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

12. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
13. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

development priorities	Pages in the annual performance report
KPA 1: Service delivery	x – x
KPA 2: Local Economic development	x – x

17. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Service delivery

19. % of households with access to basic level of water was reported as achieved during the financial period. However the villages that were reported on had access to water in the prior year. Therefore the new water installations constituted repairs of old infrastructure which the condition thereof was not of the prescribed standards. Therefore this constituted double counting of the reported target.
20. % of households with access to basic level of sanitation was materially misstatement as the reported performance did not agree to the supporting documentation.

Local Economic Development

21. The municipality materially misstated the report on the number of job opportunities created through the municipality's local economic development initiatives and capital projects

Other matters

22. I draw attention to the matters below. My opinions are not modified in respect of these matters

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of % of households with access to basic level of water, % of households with access to basic level of sanitation and number of job opportunities created through municipality's local economic development initiatives and capital projects. These were subsequently corrected.

Report on audit of compliance with legislation

Introduction and scope

24. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
25. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

26. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
- Material misstatements of disclosure items identified by the auditors in the submitted consolidated and separate financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the consolidated and separate financial statements receiving an unqualified audit opinion.

Other information

27. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.

28. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
29. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
30. If, based on the work I have performed, I conclude that there is a material misstatement of this other information; I am required to report that fact.

Internal control deficiencies

31. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion; I did not identify any significant deficiencies in internal control.
32. Management has not adequately reviewed the consolidated and separate annual financial statements as a result there were misstatements identified in the consolidated and separate annual financial statements.
33. The consolidated and separate annual financial statements and annual performance report submitted for audit were not supported by supporting information and this resulted in errors and delays in the audit.
34. Internal audit and the audit committee were effective; however there are areas where their effectiveness could be improved in relation to financial reporting which would be aided by timeous provision of reporting and supporting schedules by management.

Auditor-General

East London

11 December 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected KPA 1: Service Delivery and KPA 2: Local Economic Development and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:
 - Identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - Conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Joe Gqabi District Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. I am responsible for the direction,

supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.